

QUESTIONS OF THE DAY.—XV.

# Protection and Communism

A CONSIDERATION OF THE EFFECTS OF THE  
AMERICAN TARIFF UPON  
WAGES

BY

WILLIAM RATHBONE

MEMBER OF THE BRITISH PARLIAMENT FOR CAERNARVONSHIRE

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## INTRODUCTION.

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ANY one at all familiar with Americans must be aware that they resent the interference of outsiders with their national affairs. They naturally distrust arguments which may be supposed to be suggested by any thing but an honest interest in the prosperity of America, or which come from those who do not approach American interests from an American point of view.

I hope, therefore, I shall not be considered guilty of egotism if I explain the nature and extent of my interest in the United States. My family has been closely connected with America for more than a century and a half. My grandfather sold the first cotton ever grown in America ; and was one of the consignees of the first line of packets that ever crossed the Atlantic.

My own commercial interests are not such as to bias my judgment against the present system of Protection ; indeed, in so far as they are directly affected, they are favored by the present laws. I have been, and still am, bound to America by every

tie of interest, of friendship, and of family affection, and it is thus that my attention has been drawn to what appears to me to be the great political and social danger threatening the prosperity of the United States.

I do not expect that my arguments will convince Protectionists now, and all I ask is that good patriots and candid men will read them ; and should recurring periods of distress in America and in Germany develop effects which prove that my reasoning is right, I hope that Americans will allow the logic of events to warn them before it is too late. I have great confidence that America will fight her way through the difficulties in which the mistakes of her rulers involve her, as she did in the American Civil War. But I grieve to think how much suffering and how much temporary discredit to free institutions will accompany the misfortunes to be brought about hereafter by laws which exaggerate the fluctuations of prosperity and adversity, and make disastrously prominent that disproportion between wealth and poverty which is demoralizing alike to rich and poor.

Any literary merit which the article may possess is due to my friend Mr. Alfred Milner, Fellow of New College, Oxford. During the period of its arrangement for publication I have been so much occupied that I have been obliged to leave to him the work of putting ideas, which coincide in the

main with conclusions at which he has arrived by independent investigation, into readable form. I am, however, entirely responsible for the opinions expressed.

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## Protection and Communism.

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It is almost impossible nowadays to take up any political book or pamphlet, or even newspaper, without reading about the "Social Question." Plenty of people, no doubt, who use the phrase, have but a hazy conception what they mean by it, yet it is a safe conclusion that when a phrase like this is in all men's mouths there is something at work in the world which they are seeking to express. Nor is this something in the present instance far to seek. With the gradual penetration of knowledge and intelligence into the lowest strata of society, with the progressive transference of political power from the Few to the Many, there is a great upheaval among these hitherto impotent or apathetic millions, a growing demand on their part for a larger share in the fruits and blessings of civilization. And this tremor at the base of our modern society makes itself felt to its very apex. The rich are beginning to feel that they have a personal interest far greater than they ever suspected in understanding the wants and promoting the contentment of the poor. The whole

army of politicians are beginning to concern themselves with subjects which used to be the exclusive possession of a small band of philanthropists. The social improvement of the masses is assuming that foremost place in men's schemes and aspirations which used to be filled by political emancipation. The problem, by what means, and to what extent such improvement can be effected, this is the Social Question, and many are the answers which are being given to it. But amid the babel of imperfect solutions, there stand out with increasing clearness the eternal alternatives, gradual and reasoning progress, or sudden and violent change, Reform or Revolution. And while on the one hand it is the fear of Revolution which makes Reform possible; on the other hand, the extravagance of Revolutionists presents the greatest obstacle to Reform. The selfishness and prejudice of privileged classes may be overcome without a cataclysm, if not without a struggle; but only if there be sense, as well as determination, on the part of the aspiring people.

Over and over again we see how men are diverted from hopeful, though sober, methods of improving their condition by the glitter of impossible Utopias. Schulze Delitzsch is checkmated by Lassalle. The French *syndicats ouvriers* have no worse enemies than the Collectivists, the Anarchists, and other dreamers who vie with them for the support of the wage-earning class. The name of Socialist, which,

in its true sense, no statesman would repudiate, has been degraded, and almost become a by-word through its association with all sorts of mad theories and criminal acts. It is impossible to conceive a more momentous struggle than that now raging between the true and the false Socialism for dominion over the minds and sympathies of the laboring poor—between the Socialism which seeks to unite classes and to bridge over the gulf that separates one from another, and the Socialism which tends to plunge them into ruinous and interminable war.

The “red spectre of Communism,”—I mean by that term the doctrine which aims, whether by law or violence, at an artificial equality of fortune,—while as yet but a distant terror to the rich, is a present curse to the poor. It not only tempts them to put their trust in delusive remedies, but it prevents them from embracing with heartiness and energy the means of self-improvement, which are even now ready to their hands. In England, we may say with pride, Communism has lost ground during the last thirty years, though there have of late been some signs of its recrudescence. Of no other European country, however, can the same be said. In France, may be, repeated failure has somewhat marred the glamour of the Communistic ideal; yet, taking Europe as a whole, the balance is decidedly on the wrong side. But what is most alarming, and at first sight most inexplicable, is the growth

of Communism on the other side of the Atlantic. Time was when we were assured that in a land of perfect political equality, and of unlimited virgin soil and material resources, inviting labor to take possession of and develop them, such social heresies could never thrive. Dennis Kearney and his followers,—to say nothing of the Greenback-Labor Party, and the labor riots and disturbances of 1877,—have given these prophecies the lie. The United States, from being the soil most unfavorable to Communism, have of late years witnessed as rapid a development of Communistic opinions as any country in the world. It is true that these opinions are often imported by immigrants from less-favored lands on the other side of the Atlantic; but it is none the less remarkable that such imported ideas now flourish and spread in their new home to an extent which formerly would have been deemed incredible.

What are the causes of this widespread evil, this discontent, which, despairing of self-help under the existing order of society, despairing even of attempts to improve that order, sees no hope but in its utter overthrow? Wherever there is deep poverty, combined with a certain degree of education, contrasted with great wealth, there will always be Communism. Men raised by intelligence above the brute creation will not acquiesce in the life of brutes. Plunged in hopeless misery, and conscious of their own condition, forced to contrast it every day with the afflu-

ence and luxury of other men, how is it possible that they should not dream of and long for a redistribution of wealth? Prove the existence of a working population that is at once abjectly poor, wholly hopeless, and not wholly unintelligent, and no sensible man will ask for any better reason why that population should cherish revolutionary schemes. But this is not the kind of Communism which we are now seeking to explain. The condition of the American artisan, and even that of the German artisan, is not one of abject or hopeless poverty, nor are the poorer classes of workmen more prone to Communistic doctrines than those who are better paid. It is not low wages alone, nor helplessness, nor want of opportunity, which will account for the spread of such doctrines in one class or country rather than in another.

The German peasantry are for the most part quite as poor as the workmen of the towns, yet the teaching of Lassalle and Marx, so popular among the latter, has made hardly any way among the former class. And the same contrast is seen in comparing our own country with the United States. Whether we look at the average amount of his wages, or at his opportunities of bettering himself, or at his power of influencing legislation in his favor, the American workman is not in ordinary times worse, but better off, than the English workman. Yet, glancing back over the last thirty or forty years, we see that Communism

has greatly lost ground in England, while it has not only come into existence, but made progress in America. In respect of public order, too, the comparison is not favorable to America. There has been nothing in England since the days of the Ludite riots to compare with the outburst of lawlessness in the Middle States in July, 1877.

But, if with regard to average wages, chances of advancement, and to political power, the workmen of the United States are in a position as good as or better than that of the workmen of our own country, there is yet one very important respect in which they have of late years been the less fortunate of the two. Employment has been more irregular, wages have been subject to more violent and more frequent fluctuations in the manufacturing districts of the United States than in those of England. Commercial crises and industrial depression have not only been more severe in the former country, but the burden of them has fallen in a far greater degree upon the wage-earning class. From this point of view the comparison is enormously to the disadvantage of the American workman. And it is in these facts that we naturally seek the explanation of that bitter discontent, of that more lawless spirit to which we have referred.

Regular employment and steady wages, rising when they do rise, gradually and permanently, are the requisites of all stable progress in the material as

well as in the moral condition of the working classes. Regular work and steady remuneration encourage thrift and give it the possibility of success by enabling men to save continuously. Sudden and great rises in wages not only tempt to waste but make the almost inevitable reaction harder to bear than even uninterrupted poverty. If we compare the condition of two sets of workmen whose average wages over a given period have been the same, but one of which has received these wages continuously and at a comparatively even rate, while the others have been tossed about from high wages to low wages, or even, at times, to no wages at all, it is a matter of certainty that at the end of the time in question the former body will be found at once more prosperous and more contented than the latter. Of all material evils, insecurity of fortune is at once the most demoralizing, the most exasperating, and the hardest to bear. And the sense of insecurity, the feeling in a man's heart that not only his well-being but his very subsistence is at the mercy of a blind and incalculable destiny,—that it is, more than any thing else, which tends to embitter misery by the added sense of wrong. Of all the evils of the violent alternations of good or bad times, the successive fever and paralysis of trade with which all great industrial nations are now so sadly familiar, this precariousness in the condition and prospects of the working classes, with its consequent despair and sense of injury, is assuredly

the worst. And if it can be shown that there is any system of commercial policy which tends to produce, or even to aggravate, these alternations, to make them more violent or severe, or to throw the burden of a crisis upon the wage-earning class rather than upon the capitalists, who ought properly to bear it, how inhuman, to say nothing of its folly, must such a system appear!

It has always been the contention of the advocates of Free Trade that Protection, in addition to its purely economic disadvantages, has also most disastrous social effects; that it not only lessens the production, but renders more unequal the distribution of wealth; that it makes industry unsteady, aggravates the fluctuations of trade and the consequent uncertainty of employment, and that (while in good times bringing excessive profits to a few capitalists) it throws the burden of bad times to an undue extent upon the wage-earning class. If that can be shown to be the case, Protection stands confessed as the great ally of Communism, the enemy of social progress, and the parent of discontent and disorder. I believe that there is much in the economic history of America during the last twenty years which goes to prove the truth of this contention, and I desire to call the attention of Americans to such indications as I, watching this matter from afar, but with a deep personal interest, have been able to perceive. Americans alone can possess that intimate knowl-



edge of the facts which makes the establishment of my theory, as an irrefragable economic truth, possible. It is for them, if they think fit, to develop any helpful suggestions that I may be fortunate enough to make. I am encouraged to offer those suggestions by the reflection that ere now the observations of an outsider have been of use to those actively interested and engaged in great economic and social changes, by enabling them to read aright facts with which they are well familiar, and to distinguish essential and permanent from merely temporary and accidental causes.

It is true that I have been led to my belief in the connection between a protective policy and social inequality and discontent, in the first instance, by what I have seen in my own country. When men have contrasted the England of the last thirty or forty years with that of the thirty years between the end of the great war and the abolition of the corn laws, they have dwelt chiefly on the great development of industry and the accumulation of wealth during the later period as contrasted with the comparative stagnation of the earlier. But there is another contrast, and, for my present purpose, a yet more remarkable one, between the Free-Trade era from 1846 to 1883, and the preceding thirty years of Protection. It is the contrast in the condition and spirit of the working classes. There is, no doubt, room for improvement even now, but that does not

diminish the significance of the progress which has been made. And if I am asked what economic influences have chiefly contributed to that progress, I answer : (1) The greater regularity of employment and evenness of wages, together with a progressive, if slow, rise in the rate of wages in almost all the great branches of industry ; (2) The greater steadiness, in the price of the necessaries of life, together with considerable reductions in some cases. And these influences have produced their inevitable moral results in : (1) The more saving habits of the mass of the population ; (2) Their growing, if not universal, aversion to violent and revolutionary schemes for improving their condition, such as animated the great bulk of the Chartists, and their increased reliance on self-help and orderly methods of self-advancement. The very basis of such progress as we have made is thus seen to consist in the greater stability of trade and industry which has characterized the Free-Trade era, and which, far more than the increase of wealth, constitutes the great claim of Free-Trade to the gratitude of the mass of the population. Fluctuations, no doubt, there have been, and those of the most deplorable kind ; periods of feverish activity followed periods of depression. But neither have such fluctuations been so great, nor has the reaction after a season of excessive prosperity fallen so heavy upon the main body of the producers as used once to be the case.

The extremely low wages and general want of employment which characterized earlier industrial crises,—like that of 1836 to 1841-2,—have shown a growing tendency to disappear. The prolonged depression of trade from 1873 to 1878, was accompanied, as the statistics of pauperism show, by less acute and widespread misery among the wage-earning class of England than any previous depression of equal length and equal severity.

When we turn to the condition of the United States during the same period, we are confronted by a very different picture. It was not for nothing that the bad times of 1873-8, which passed over with almost complete tranquillity in this country, produced on the other side of the Atlantic a widespread outbreak of violence, unparalleled in the history of the law-abiding American workman. It is not that the wage-earners of the States are by nature less peaceful or less patient than their fellows in England, but that their endurance had been exposed to a much severer trial. The average fall in the wages of common laborers between 1873 and 1877 had ranged from 37 to 50 per cent., while in those of most high-class artisans and mechanics it was even greater. In England, on the other hand, with, perhaps, the single exception of the coal-miners, no large class of workmen had suffered to any thing like the same extent. What is there to account for the difference? The depressed condition of industry was not confined to

any one country. The same general influences were operating to check production, and to cause want of work and low wages, in America, in England, and all over the continent of Europe. But the two countries in which the distress was most severe were, undoubtedly, the United States and Germany (including Austrian Germany, the commercial relations of which country with its northern neighbor are of the most intimate kind). Now the cause of the great crash of 1873 in Germany and Austria, followed as it was by such prolonged and heavy stagnation and distress, has been found, by universal consent, in the unnatural stimulus given to production by the influx of French money in discharge of the war indemnity. That influx raised prices all round, and the high prices, by holding out a prospect of unusual profit to manufacturers, tempted them to increase their stock to an extent not warranted by the permanent demand (the over-building which went on in Berlin in the years immediately succeeding the war is a familiar instance), and to contract heavy debts with that object. The moment a check in the tide of prosperity came, the market was found to be full of unsalable goods. Prices fell rapidly, production was brought to a stand-still, and great numbers of men were thrown out of work, while the remainder had to submit to a reduction of wages, all the more galling for the short preceding period of unusual prosperity. Similar causes were at this

time leading to similar effects elsewhere, but not, except in the United States in any thing like the same degree. There alone do we find an almost perfect parallel to the tremendous collapse in Germany, a cessation in the demand, and a reduction in the reward of labor, so great as to bring down the number of immigrants, which in the years 1867-73 had averaged 400,000 per annum, to only 138,000 in 1878. It is natural to ask whether there was not some similarity in the economic conditions of the two countries at this time to account for their companionship in misfortune. With regard to their general circumstances, no two peoples could be more differently situated. On the one hand, we have an old country, not, on the whole, especially favored by nature, and where the rapid increase of population tends more and more to outstrip the demand for labor ; on the other hand a young country, of immense and varied natural resources, where, despite the vast growth of population, there is still a practically unlimited field for labor, in the opening up of new regions and the development of those as yet but thinly inhabited. There is certainly no country in the world where want of employment ought, under natural conditions of progress, to be so uncommon, not to say unheard of, as the United States, for they have both the great requisites for a steady and continuous expansion of industry, namely, great natural resources and great accumulated wealth, plenty of

opportunities for production, and plenty of capital to assist labor in availing itself of them. If, therefore, we find them, at a period of general industrial depression, suffering not less but more than other countries, and in the same case with poor and overpopulated Germany, there must, it would seem, be some special causes to account for so unexpected a phenomenon. And as a matter of fact, it seems clear to many people that such a special cause was at that time, and still is, in operation,—that special cause being the War Tariff.

The unnatural stimulus given to certain branches of industry in Germany for several years running, by the influx of French money, appears to have an exact parallel in the unnatural stimulus given to certain branches of industry in America by the bounty paid out of the pockets of the taxpayers to the producers of particular goods. There is, it must be remembered, no such thing as general over-production. There is never, economically speaking, too much work done in the world. What goes by that name is, in fact, misproduction, the misdirection of capital and labor, the excessive production of certain kinds of things to the neglect of others, a disturbance of that due proportion between the quantities of different articles produced, upon which the steady and continuous development of national wealth depends. That Protection, by unnaturally diverting labor and capital into certain special channels, must

at all times increase the risk of this kind of miscalculation needs no showing ; but this evil influence of Protection is enormously aggravated in seasons of great commercial activity. Even when trade is free a large increase in the demand for a particular class of commodity in any country, especially when it is a sudden increase, will necessarily lead to a great rise in price ; but that rise will soon be powerfully restrained by the steadying influence of competition. The field of supply being a wide one, the productive powers of many countries will vie with one another in satisfying the increased demand. The rise of price is thus kept within limits, and the tendency of extraordinary profits to bring about an excessive investment of capital, and consequent over-production in that particular commodity, receives a salutary check. But, when the field of supply is artificially limited, this natural regulator is removed or greatly hampered in its action. The rapid and violent rise of prices is aggravated by the restraints placed upon foreign competition. The temptation to over-production, which would have existed in any case, is, in consequence, greatly increased. There is thus in every country which maintains a protective tariff a permanent influence at work to aggravate the dangers of a season of active trade ; and this unnatural stimulus to production is not confined to the protective industries. Inflation is contagious, and spreads from one trade to another. Protection is thus seen

to be an influence of precisely the same character as that exercised upon German industry by the payment of the war indemnity, only much more dangerous, because it is a permanent and not a transitory influence,—because it is ready at all times to increase the temptations of a season of unusual prosperity, and, consequently, the likelihood of a subsequent collapse. It is not in every industry or in every period of inflation that the operation of this influence is equally visible, but I would ask Americans to watch and see if its malignant effects are not written upon many pages of their industrial history. There are some instances in which they seem sufficiently obvious even to a foreign observer. The iron trade is one that has constantly been subject to great fluctuations both in England and the United States, and despite the heavy restrictions upon the import of English iron into the latter country, the prosperity of the iron trade here has always depended largely upon the general commercial position on the other side of the Atlantic. But there is nothing in the history of the English iron trade to compare with the extraordinary alterations of good and bad times in that of America, *still less with the effect of these alterations upon the condition of the workmen.* During the last thirteen years the United States have witnessed two several seasons of abnormal activity, of high prices and excessive profits, the former followed by a ruinous collapse, the latter by a



continued depression, of which we may not even yet have reached the lowest stage. Perhaps the history of the previous breakdown will lead Americans to detect the causes of the recent trouble. In both cases the iron trade has, whether in the upward or downward movement, exercised a decisive influence. In 1869 the *consumption* of pig-iron in the United States was estimated by the Special Commissioner of the Revenue at 1,837,000 tons, and the annual increase of consumption at 170,000 tons, which it would require the annual erection of twenty-eight new furnaces, of an average capacity of 6,000 tons, to supply. The actual *production* during that year was 1,725,000 tons, rising to 1,865,000 tons in 1870, and 1,911,000 tons in 1871. But during the latter year the consumption of iron, owing chiefly to the fresh start in railway construction, had greatly increased. The field of supply being artificially limited, prices rose to fabulous figures,—as much as  $\$53\frac{7}{8}$  in 1872 for a ton of pig-iron, as compared with only  $\$31\frac{1}{4}$  in 1870; new furnaces were blown in right and left; capital rushed into the iron trade as if railway construction must go on at the rate of 7,000 to 8,000 miles per annum for ever. During the year 1872 the production of pig-iron in America amounted to 2,854,000 tons, an increase of more than 50 per cent. in a single year. The number of furnaces was increased from 230 in 1870 to 657 in 1873. In England, during the same pros-

perous period the number of furnaces was increased from 600 in 1869, to 702 in 1872, and the production of pig-iron from 5,445,000 tons to 6,741,000 tons, or 23 per cent. in four years. But if the advance in England was less astounding, it was also less precarious. During the cycle of bad years which followed the crisis of 1873 our production never fell below 5,991,000 (in 1874), nor the number of furnaces in blast below 496 in (1879), out of a total of 929; but in America, the year 1876, in which the lowest point of depression was touched, saw more than two thirds of the whole number of the country's furnaces out of blast (478 out of 714), while the production had fallen away to 2,093,236, a reduction of nearly 26 per cent. on the figure of 1872.

It is needless to dwell upon the familiar story of the distress which this collapse produced amongst the wage-earners. In 1877, the year of the riots, nearly half the iron-workers and iron and coal miners in the United States were out of work, while those still employed had in some cases to be content with wages as low as \$10 a month. If there was any other class of laborers comparable to them in misfortune, it was that of the workers in the textile industries of the Eastern States, which, like iron, enjoy the special favor of the tariff. The lowness of wages, indeed, at one time produced a reaction in the tide of disaster, and gave a little temporary spurt to the languishing export trade of America. For

once the world saw the unusual spectacle of American manufacturers underselling their English rivals in neutral markets, because the fall in wages in the former country had so far exceeded that in the latter that the manufacturers could afford to make a much greater reduction in their prices. The movement, however, did not come to much, the American manufacturer being too greatly handicapped in other respects,—such as the expense of materials, the limitation of markets,—by the effect of Protection, to benefit much by this (from a national point of view) very dubious advantage of cheap labor. This point has been so often and ably expounded that it is not necessary for me to do more than allude to it now. It is not only Free Traders who insist that what prevented the recovery of trade after the crisis of 1873, and caused the long continuance of the season of depression, was the want of foreign markets. Production, it was generally agreed at the time, had greatly out-stripped the home demand, and there were not sufficient channels of foreign trade to carry off the excess. “What the country now most needs,” wrote Mr. Wells in 1876 (and he was not then stating a disputed proposition, but one to which Protectionists would have agreed as much as Free Traders), “and what it must have, if it would have prosperity, are larger markets,—markets outside itself,—for the sale of the surplus products of its capital and labor.” But to the acquisition of such

markets Protection is the most formidable obstacle. It is impossible to place restrictions upon the imports of a country without limiting the market for its exports. The effects of a Protective tariff in restricting the free outflow of a country's surplus manufactures, to say nothing of its influence in enhancing their price, have been so often dwelt upon that no one familiar with economic discussions can need to have them repeated to him. I only refer to the matter here in order to point out how Protection aggravates the fluctuations of trade in both directions, by checking the natural process of recovery in bad times, as well as by aggravating the inevitable tendency to speculation in good times.

I am anxious that the extent of my contention should not be misunderstood. I am not now arguing that Protection is the sole cause of fluctuations in trade, which it plainly is not, nor even that it was the principal cause of that gambling which led to the great crisis of 1873 in the United States, and to the four subsequent years of intense depression. I have my own opinion as to the extent to which Protection is responsible for these evils, but I readily admit that the influences tending to produce unsound trade at that period were so manifold, and their effects so complicated, that my theory may not admit of absolute proof in this instance. The far-reaching derangement of industry caused by the war, the increase of the financial and speculative out of due

proportion to the industrial classes, the inflation of the currency and consequent uncertainty of values, perhaps also the undue stimulus given to railway construction by excessive land-grants, were all causes calculated to lead to an unhealthy expansion of business. The losses of the war had been concealed rather than repaired by a feverish activity resting upon no solid basis. The country was induced to think itself richer than it was, to spend more than it could afford, to sink an undue amount of capital in works that could only be remunerative if the existing spurious rate of progress were to continue for ever unchecked. The new railways, for instance, were, thanks to the high price of protected iron, constructed at such a ruinous rate that it needed an increase of traffic which was beyond all reasonable expectation for some years to come, to enable them to pay dividends. But, however many causes may have contributed to produce the disaster, Protection could, as I understand the matter, have only one effect,—to aggravate it. That was bound to be the case in theory. There seem to me many indications that it was so in fact. The reason why I insist upon this effect of Protection at the present time is a practical one. It seems as if this story of the extreme alternations of prosperity and misfortune in the United States, the fat years followed by the lean, were now repeating itself before our eyes. Just as the active trade of 1870-73 was followed by the

collapse of the latter year and the prostration of the four years which succeeded it, so the revival which began in the autumn of 1878, and had spent its force by the autumn of 1881, is now being succeeded by another season, if not of general depression,\* yet of greatly contracted business and widespread distrust. The speculation of 1879-81 was perhaps not so wild as that of 1870-73. It is to be hoped that the reaction from it also will never be so violent. But whatever the extent of that reaction, I want Americans to reflect very earnestly upon its cause, I want them to ask themselves why in this instance again the fluctuations, which have not, be it well observed, been confined to America,—for similar though less strongly marked changes have come over the trade of England and other countries during the same period,—should have once more taken so exceptionally severe a form in the United States. Why should American industry, with its unequalled natural advantages, be more exposed to the variations of commercial fortune, be more at the mercy of speculators, than that of Great Britain? The favorite explanations of an earlier period will not do here. There are no wars and long-deferred consequences of war, there is no inflated currency to account for the phenomenon. The cause must be sought elsewhere, and I believe that we shall be brought back to Protection as the main cause,—if by no other method, at least by the process of exhaustion.

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\* This article was written in 1882.

There are one or two other points on which I wish to touch. My contention so far has been that Protection, by aggravating the uncertainties of trade, aggravates also that misery and discontent on the part of the wage-earners, of which uncertainty of employment and great variations in the wages of labor are the principal cause. But its injustice to the working-classes is not confined to that insecurity of condition to which it exposes them. Not only does it aggravate fluctuations which are detrimental to labor in any case, but it tends to make labor bear an unfair share of the burden of bad times in proportion to that borne by capital. It helps capital, and especially large capitals, while reaping the full advantage of prosperous times, to shuffle off the losses of adverse trade to an undue extent on to the shoulders of labor. A brief consideration will show how Protection produces this effect. The United States have become quite recently the land of millionaires. No purely commercial fortunes that the world has ever seen can compare with those which have been amassed in the United States, all within a comparatively recent time. Little more than a generation ago, while the average prosperity of the country was very great, a millionaire was still exceptional. At the present day the United States are, *par excellence*, the land of millionaires. They possess, if not a larger number, at any rate bigger specimens of the class than can be found anywhere

else in the whole world, and these monster fortunes are (with rare exceptions, like that of the Astors) the creation of a single generation. It is true that some of the most notable of these fortunes cannot be in any way attributed to the influence of Protection, and that no direct connection between the large Stock Exchange fortunes and Protection can be made out. Yet even in the case of the Stock Exchange, that exaggeration alike of prosperity and adversity, which Protection brings about, does facilitate most seriously the accumulations of very rich, and the ruin of poorer, investors. Poor men cannot hold, through periods of depression, property which for a time ceases to pay.

What I contend is that, in the period during which America has become more Protective, and England has adopted Free Trade, it is in the country under a Protective system that the tendency to exaggerate the inequalities of fortune have been most striking. During that time the growth of wealth in England also has been very great, but its distribution has been remarkably different. The returns of the English income tax, especially under Schedule D, which contains incomes derived from business, are very instructive on this point. The number of incomes of £50,000 and upward under this schedule rose from 37 in 1855 to 71 in 1877, an increase of 91 per cent. But during the same period the number of incomes between £10,000 and £50,000 had risen from 409 to







904 ; that of incomes between £1,000 and £10,000 from 8,020 to 17,622 ; and that of those between £200 and £300 from 30,499 to 81,222, the increase being about 120 per cent. in each of the two former classes, and as much as 166 per cent. in the last class. The huge incomes have multiplied less rapidly than the large, the moderate, and the small ones ; and this especially during the later years of the period. The great feature of the time is the increase in the number of persons sharing in a substantial degree in the general growth of wealth.\* Large fortunes have, at the same time, undoubtedly multiplied in some trades, and monster fortunes have been enlarged or consolidated, but there are few instances of monster fortunes having been created during the last twenty years. In the United States, on the other hand, the creation of monster fortunes has been the prominent economic fact of this generation, something even more conspicuous, and certainly less inevitable than the general increase of the national wealth, which was to be expected from the vast resources of the country and the rapid increase of pop-

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\* Forty years ago I used often to ride over a district on the borders of Lancashire and Yorkshire, noted for large fortunes made in cotton manufactures, with a friend of mine who is himself one of the largest manufacturers in the kingdom. I was asking him the other day what had been the course of trade in the district. He said that many of the wealthiest manufacturing families had disappeared, and that he could not mention a single large fortune made in cotton manufactures in recent years, "But," he added, "for one man who was making from £500 to £1,500 a year in Manchester and its neighborhood when we were young, there are fifty who are doing so now." A most wholesome change.

ulation. Wealth shows a growing tendency to become concentrated in few hands, and the expanding industry of the people is falling more and more under the management of a limited number of large corporations, controlled in many instances by a few enormously rich men, or even by one such man. While the capital engaged in manufactures had risen from \$2,118,207,769 in 1870 to \$2,790,272,606 in 1880, or upward of 30 per cent.,—the real increase, owing to the rise in the value of the dollar currency being much greater,—the number of establishments had only increased from 252,148 to 253,852, or between  $\frac{1}{2}$  and  $\frac{3}{4}$  per cent. And the concentration of capital would appear to be greatest in the most highly protected industries. The average amount of capital engaged in the 253,852 establishments enumerated in the census of 1880 was \$11,000, but, looking at the special statistics of leading industries, we find the following figures :—

## MANUFACTURES.

Industry.	Number of Establishments.	Total Capital.	Average Capital.
Mixed Textiles . . .	470	\$ 37,996,057	\$ 80,842
Cotton Goods . . .	1,005	219,504,794	218,412
Worsted . . . . .	76	20,374,043	268,079
Iron and Steel . . .	1,005	230,971,884	229,822

All these are highly protected industries. Take, again, the protected coal, copper, and iron mining of the United States. Here are some of the facts :—

Substance.	Number of Establishments.	Total Capital.	Average Capital.
Iron Ore . . . . .	805	\$ 61,782,287	\$ 76,748
Copper Ore . . . . .	53	31,807,596	600,143
Anthracite Coal . . .	277	154,504,336	557,777

Nor do these figures adequately represent the degree to which such industries were in the hands of great capitalists, for many of the establishments, which serve to reduce the average capital in such calculations, are entirely insignificant and of no account. A particular branch of iron and steel production displays this tendency to accumulation in an exceptional degree. At the census of 1880, there were thirty-five Bessemer and Open-Hearth steel works in the United States, with a capital of \$20,975,999, or almost \$600,000 a piece. But here, again, the official figures give an inadequate idea of the extent to which concentration actually prevails in the steel-producing business. At this moment, eleven great and allied companies have completely monopolized the Bessemer steel production of the States, and, thanks to the royalty of \$28 on every ton of their productions, which they long enjoyed, have accumulated profits enabling them to put an effectual extinguisher on all would-be competitors. No doubt the over-production, to which Protection has here, as elsewhere led (the capacity of all the works of the States was estimated at 2,125,000 tons of steel rails per annum in the middle of last year, as compared with 1,250,000 tons two years before), may end, if

the present depression continues, in the collapse of some of these great and artificially fostered enterprises, as it has already led to a fall in the price of steel rails from \$58 a ton in January, 1882, to \$40 in December of the same year, and to \$32 and \$35 in June, 1884. But such a result will not check, it will only augment, the tendency to concentration.

That tendency is, as it seems to me, inseparable from every system which aggravates the fluctuations of trade. The vast profits accumulated by large capitalists in seasons of prosperity enable them to weather storms which smaller men, with smaller accumulations, are unable to survive. Steady trade is, indeed, the best for everybody in the long run; but for the small man it is not only the best, it is indispensable.

And there is another reason, besides this general one, why Protection favors the amassing of great fortunes. A protective tariff aims at preserving the weaker members of any industrial group,—the manufacturers who are so unskilful or so unfavorably situated that but for Protection they would have to give up business. But it is impossible to preserve the weak without needlessly and even mischievously favoring the strong. An import duty adds so much to the price of every article of the class on which it is imposed, whether it be produced by a man who can only make a profit at the enhanced price or by one who would make a profit at the natural price.

This augmentation of price, therefore, which is a necessary subsidy to the manufacturer, who, but for the tariff, would have to go out of business, is a pure bonus,—paid out of the pockets of the tax-payer,—to his stronger brother, a bonus which he may use, if he pleases, to undersell the very people for whose sake the tariff is imposed. And this bonus may be so great as to amount to a stupendous extra profit, which, recurring year after year, will soon by itself constitute an immense accumulation. In 1869, for instance, when the average price of American pig-iron of all kinds was, by means of the tariff, kept up at \$35—\$36 a ton, there were plenty of manufacturers who could make it at \$25, \$24, and even \$16 a ton. The effect of such Protection was to secure these people profits ranging from 40 to 120 per cent. When the price suddenly rose, in 1871, their profits must have been something fabulous. Is that not a system directly tending to promote great accumulations of wealth and to aggravate inequalities of fortune? I say nothing of the fact that this vast and mischievous bonus to those already rich is paid out of the pockets of the great body of the people. Nor do I contend that Protection is the only influence making for the accumulation of wealth in a few hands. All I maintain is that here, as elsewhere, it tends to augment evils which are inherent in the modern industrial system.

That the concentration of industrial capital, of

which I have spoken, is unfavorable to the workman needs no showing. The wage-earners are far more helpless in dealing with a few large masters than with a number of small ones. The former are at once readier to combine and better able, from their vast resources, to resist any pressure that can be brought to bear on them by those whom they employ; and this power of theirs will be especially great in a time of depression. In seasons of prosperity, when prices are rising, the anxiety of manufacturers to be producing largely will make them accommodating to their workmen in any case, whether the manufacturers be few or many, rich or comparatively poor. But when the tide has turned, and the tendency of prices is downward, a combination of a few great capitalists, with huge profits in their pockets, will have the workmen completely at their mercy; and this is peculiarly the case in industries in which over-production is artificially encouraged. The larger the number of workmen who are attracted to any industry in good times, the larger will also be the number who scramble for employment in bad times; and just in proportion to the intensity of that scramble is the power of the capitalists to reduce wages, or, in other words, to transfer the burden of their losses from their own shoulders to those of the men; and when once the labor market in an industry has become over-stocked, the depression of wages often outlasts the particular period of



bad trade which originally led to it. Something of this kind has, it would seem, taken place in the protected industries of the United States. It is, to say the least of it, remarkable that in the census year 1880, the second year after the great revival of trade, the wages of labor in some of the principal of these industries were not only low in themselves, but actually lower on the average than wages in less protected or wholly unprotected industries requiring an equal degree of strength or skill, and this in a year when manufacturers were making enormous profits.

And the subjugation of the workmen to the capitalists, which has resulted from the plethora of labor in the protected industries, appears all the more heinous when it is remembered that the men who were tempted into these industries in excessive numbers in the "boom" of 1870-1873, only to be thrown out of work or reduced to starvation wages in the years that followed, might all the time have been earning an ample and increasing livelihood as agriculturists in the West. It was from agriculture, the one great unprotected industry of America, that the revival of 1878 came. It was not till five years of misery and depression had driven numbers of workmen out of the protected mining and manufacturing industries to this vast field of employment, whither but for the temporary inflation of wages in these industries they would have gone in the first instance, that prosperity

once more returned to the States. But through what an amount of needless suffering had that long-deferred revival to be reached, and what an enduring influence for evil has the original misdirection of labor involved! Some of the rebellious miners of Pennsylvania in 1877 protested that they were willing that their wages should be fixed by competition, but that they would not endure their being fixed by "rings." What would they have said had they seen, as we can now see, that the power of the rings and their own helplessness had both been promoted by legislation, and by legislation purporting to protect the American workman?

So much for the effect of great accumulations of wealth on the relations of capital and labor. Of their general detrimental influence upon society it would be superfluous to speak. There is no greater danger which can beset any community than that of splitting up into two peoples, the nation of the poor and the nation of the rich. The spectacle of a few money-kings, men of vast and sudden wealth, separated by their riches and often by these alone, from the mass of their fellow-creatures, is not one calculated in any case to promote social amity. The feeling of envy which it excites is all the greater when these men are seen to brave undisturbed, and even to benefit by, economic convulsions which prostrate the industry of the country, reducing thousands to ruin and impairing for many years the position of the working-

classes. And that feeling may grow uncontrollable if it comes to be recognized that the prodigious prosperity of such men is not due wholly to natural causes, to the irresistible working of economic laws, but that it has been engendered or fostered by human enactments, and these enactments purporting to be made in the interest of the whole community. If such a conviction should take hold of the minds of men at a time of widespread distress, we should have the condition of things most favorable to the growth of Communism; for it is the combination of a consciousness of suffering with a sense of wrong which begets and nourishes ideas subversive of social order.

One word, in conclusion, as to the position of an Englishman who ventures to advise Americans on the subject of their financial policy. Such advice is apt to be suspected as due to the promptings of self-interest. Englishmen, it is said, only want Americans to give up Protection in order that they may flood the American market with their own goods. But, whatever may once have been the case, it would be a great mistake to suppose that at the present time Englishmen were very anxious for their own sakes to see America adopt Free Trade. There is, on the contrary, a great and growing feeling in this country that it is in the interest of England that the United States should still adhere to Protection. As long as they do so, it is thought, England is safe

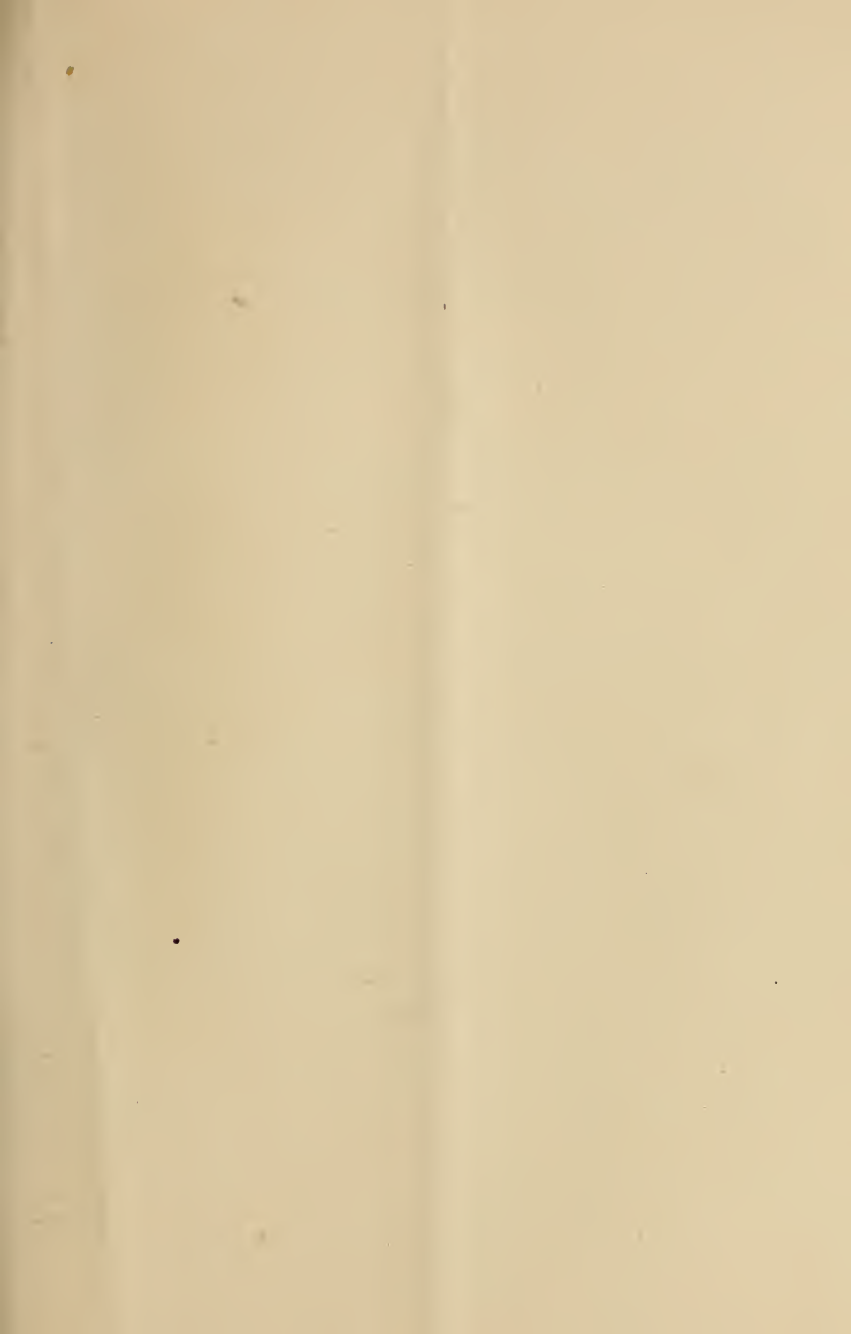
from her only dangerous competitor in the markets of the world. "For myself," said Mr. Chamberlain, at the last annual dinner of the Cobden Club, "speaking only as an Englishman, I look forward with anxiety, not unmingled with alarm, to the time when our merchants and manufacturers will have to face the free and unrestricted competition of the Great Republic of the West, and when the enterprise of its citizens and the unparalleled resources of its soil will no longer be shackled and handicapped by the artificial restrictions which have hitherto impeded the full development of its external commerce."

For my part, I believe the fear here expressed to be groundless. I am willing to admit that if the United States had not adopted Protection twenty years ago they would now be holding the place still occupied by England as the first commercial country in the world. I believe also if they were now to abandon Protection, they would in another twenty years have supplanted England in that position. But I can look forward to such a result without any apprehension for the future of my country. For I believe that with Free Trade once established on both sides of the Atlantic the second place in the international commerce would be a better and a safer place than the first is now. Not only would the total production of wealth be greater, but—what is of far more importance—it would be more regular and more equable, and the earnings of industry

would be more equally divided between the various classes of the people. For we should suffer less from those violent fluctuations of trade, which, while they may turn to the advantage of a few persons, profoundly disorganize the life of the whole people ; and, by making the condition of the working-classes insecure, discourage thrift, promote discontent, and constitute the greatest obstacle to their material and moral progress. The chief advantage of such a change would, no doubt, be reaped by America, but England, which now suffers with her, though in a less degree, from the same disorders, would be benefited by it too. It is not from my interest in America alone, nor yet from love of my own country alone, but from both combined, that I desire to see the removal of a system fraught, as it seems to me, with so many disastrous consequences to America, to England, and to the world.

In conclusion, I repeat I am not presumptuous enough to expect that this paper will convince any American Protectionist. All I ask is that thoughtful and patriotic Americans should watch the course of events to see whether Protection is not producing in America exaggerated contrasts between wealth and poverty, between prosperity and adversity, between high wages and low wages or no wages, and whether by the discontent so caused it is not bringing about a social danger far more fatal to national prosperity than even that economic waste which

Protection undoubtedly involves. It is surely a startling fact that in an old country like England (played out, as some of our American friends assert it to be), all these evils have diminished in thirty-six years since England adopted Free Trade, while, during the same time, they have increased in young and vigorous America with its vast undeveloped natural resources. For I assert, without fear of contradiction, that in the old country with its dense and rapidly increasing population, and with—as compared with America—its limited natural advantages, pauperism has decreased, wages have not only advanced, but become more regular, and wealth has not only increased, but tends continually to become much more widely distributed among those who labor, whether with head or hand. I assert that in aristocratic England, with all its social and political anomalies, there is less jealousy between class and class than there was forty years ago ; that there is more reliance on justice, good feeling, and argument, and less disposition to resort to intimidation and violence. Can the same be asserted of the United States during the same time ? And if not, will Americans once more deeply consider whether there are not artificial and gratuitous causes why their recent history should contrast unfavorably with that of England in these respects, wherein the bounty of nature and the freedom of their political institutions ought to have ensured them an increasing superiority.







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